

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L LISBON 5696

E.O. 11652: GDS
TAGS: ECON EFIN PO
SUBJECT: PORTUGAL'S MEDIUM TERM ECONOMIC PLAN

REF: STATE 189670

1. ECON COUNSELOR RAISED REF SUBJECT WITH MINISTER OF FINANCE AND PLANNING CONSTANCIO. LATTER STATED THAT HE HAD TOLD IMF OFFICIAL HANS SCHMITT OF GOP INTENTION TO SUBMIT A DETAILED IMPLEMENTATION SCHEDULE OF THE GOVERNMENT'S ECONOMIC PLAN TO THE NATIONAL ASSEMBLY IN 1979 OR 1980. NEVERTHELESS, HE HAD EXPRESSED ALSO GOP INTENTION TO SUBMIT AN ABBREVIATED FORM OF THE PLAN TO THE NATIONAL ASSEMBLY BY OCTOBER 15, 1978. THE LATTER PRESENTATION WOULD NOT INCLUDE DETAILS OF THE GOVERNMENT'S INVESTMENT PROJECTS, BUT IT WOULD: ENUMERATE THE GOP'S INVESTMENT PRIORITIES, STRESS THE NEED FOR PUBLIC SECTOR REORGANIZATION, EMPHASIZE THE IMPORTANCE AND CLARIFY THE OPERATING RULES OF THE PRIVATE SECTOR, AND UNDERLINE IMPORTANCE OF PROMOTING THE AGRICULTURAL AND EXPORT SECTORS. IN EFFECT, THE OCTOBER PRESENTATION WOULD DEFINE THE GOP'S POLICIES AND ITS ATTITUDE TOWARD THE PRIVATE SECTOR; THE PRESENTATION TO BE MADE BY 1980 WOULD DETAIL THE PRIORITY, COSTS, TIMEFRAME, ETC. OF FUTURE GOVERNMENT INVESTMENTS.

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2. IF A NEW, SOLIDLY-BASED GOVERNMENT IS NOT INSTALLED VERY SOON, THE FOREGOING WILL LIKELY BECOME ACADEMIC. CONSTANCIO HAD CANCELLED MINISTRY OF PLANNING VACATION PLANS FOR AUGUST. SINCE THE FALL OF THE GOVERNMENT, HOWEVER, PLANNING MINISTRY PERSONNEL HAVE LARGELY CEASED THEIR SUBSTANTIVE WORK AND ARE REQUESTING ANNUAL LEAVE. THUS, PRECIOUS TIME IS BEING LOST. IF THIS LACK OF PROGRESS

CONTINUES FOR VERY LONG, THE GOP WILL HAVE LITTLE, IF ANY, POSSIBILITY OF SUBMITTING A MEDIUM TERM PLAN TO THE NATIONAL ASSEMBLY BY OCTOBER 15.

3. ECON COUNSELOR STRESSED IMPORTANCE OF PROCEEDING WITH PREPARATION OF THE MEDIUM-TERM PLAN. CONSTANCIO CONCURRED THAT THE COSTS OF A DELAY WOULD BE EXTREMELY HIGH. AFTER EXPLORING SOME OF THESE COSTS, CONSTANCIO AGREED TO PRESS THE MINISTRY TO PREPARE A DOCUMENT WHICH THE NEXT ADMINISTRATION COULD, IF IT SO CHOOSES, ADOPT AND PRESENT TO THE NATIONAL ASSEMBLY AS ITS OWN PROGRAM. CONSTANCIO EXPRESSED SOME DOUBT ABOUT HIS ABILITY TO FULFILL THAT TASK GIVEN THE CURRENT POLITICAL SITUATION. HE WAS HOPEFUL, HOWEVER, THAT HIS MINISTRY COULD, AT LEAST, ENUMERATE THE GOVERNMENT'S INVESTMENT PRIORITIES.

4. CONSTANCIO ACKNOWLEDGED THAT HE EXPECTED THIS FALL'S GOP/IMF DISCUSSIONS TO FOCUS ON A THIRD TRANCHE AGREEMENT. HE HAD REACHED THAT CONCLUSION IN THE BELIEF THAT 1979 WOULD AGAIN BE A YEAR OF STABILIZATION, NOT A YEAR OF INITIAL ECONOMIC RECOVERY UNDER A MULTI-YEAR IMF EXTENDED FACILITY AGREEMENT. HE ASSERTED THAT SCHMITT HAD CONCURRED AND, IN FACT, SEEMED TO ADVOCATE SUCH AN APPROACH. CONTRARY TO PARA 2 OF REFTTEL, HOWEVER, CONSTANCIO APPARENTLY OBTAINED THE IMPRESSION FROM SCHMITT THAT A THIRD CREDIT TRANCHE AGREEMENT WOULD BE ALL THAT WAS NECESSARY FOR GOP

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ACCESS TO THE WITTEVEEN FACILITY. INDEED, CONSTANCIO SEEMED CONVINCED THAT A THIRD TRANCHE AGREEMENT WOULD VIRTUALLY ASSURE GOP ACCESS TO THE WITTEVEEN FACILITY.

5. ACTION REQUESTED: EMBASSY WOULD APPRECIATE CLARIFICATION OF REQUIREMENTS FOR ACCESS TO THE VARIOUS IMF FACILITIES DISCUSSED ABOVE.

BLOOMFIELD

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